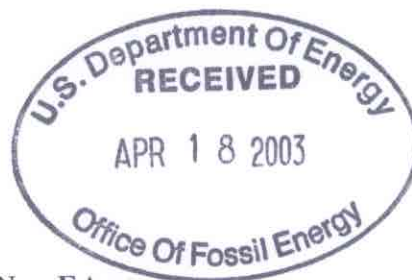


UNITED STATES OF AMERICA
BEFORE THE
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY



Citizens Communications Company)
and)
UniSource Energy Company)

Docket No. EA- 279

**JOINT APPLICATION OF CITIZENS COMMUNICATIONS COMPANY
AND UNISOURCE ENERGY CORPORATION TO RESCIND AUTHORITIES
TO TRANSMIT ELECTRIC ENERGY TO MEXICO AND SIMULTANEOUSLY
REISSUE EXPORT AUTHORITIES TO A NEW ENTITY**

Pursuant to Section 202(e) of the Federal Power Act ("FPA"), 16 U.S.C. § 824a(e) (2000), and 10 C.F.R. §§ 205.300 *et seq.* (2002), Citizens Communications Company ("Citizens") and UniSource Energy Corporation ("UniSource Energy") (collectively, "Applicants") hereby file with the Department of Energy ("DOE" or the "Department") this joint application to rescind Citizens' export authorities to transmit electric energy from the United States to Mexico and simultaneously reissue export authorities to NewCo,¹ a subsidiary of UniSource Energy, without energy limits to become effective upon the financial closing of the transfer of ownership of Citizens' Arizona electric system to NewCo.

I. INFORMATION REGARDING APPLICANTS.

A. Citizens Communications Company.

The exact legal name of the applicant is Citizens Communications Company.² Citizens is a Delaware corporation and has its principal offices at 3 High Ridge Park, Stamford, Connecticut

¹ As of the date of this application, the name of UniSource Energy's subsidiary has not yet been determined. Accordingly, for purposes of this application, UniSource Energy's subsidiary is designated "NewCo." The Applicants will promptly notify the Department in writing of the official name of this entity when a final determination is made.

² Citizens was formerly known as "Citizens Utilities Company". The name was changed to "Citizens Communications Company" in May, 2000.

06905. Citizens provides communications services via approximately 2.5 million access lines in 24 states, and provides public utility services to approximately 286,000 electric and gas customers in Vermont, Hawaii and Arizona.

In Arizona, Citizens operates as an electric and gas utility through two operating divisions. Through its Mohave Electric Division (“MED”) and Santa Cruz Electric Division (“SCED”), Citizens is certificated to provide retail electric service to approximately 77,500 customers in Mohave County in northwest Arizona and in Santa Cruz County in southeast Arizona. These customers have a historical maximum peak demand of approximately 320 megawatts. Through its Northern Arizona Gas Division and Santa Cruz Gas Division, Citizens provides retail natural gas service in most of northern Arizona, including portions of Mohave, Yavapai, Coconino, Navajo, and Apache Counties, as well as Santa Cruz County in southeast Arizona. Citizens currently serves approximately 125,000 retail natural gas customers in Arizona. Substantially all of Citizens’ electric and gas customers are in the residential and commercial classifications.

Citizens is subject to regulation in Arizona by the Arizona Corporation Commission (“ACC”) with respect to retail electric and gas rates, the issuance of securities, affiliate transactions, the maintenance of books and records, and other matters. Citizens is also a “public utility,” as defined under Section 201(e) of the FPA, 16 U.S.C. § 824(e) (2000), and, therefore, is subject to the jurisdiction of the Federal Energy Regulatory Commission (“FERC”).

Citizens’ transmission and distribution system consists of approximately 56 circuit-miles of 115 kV transmission lines, 229 circuit-miles of 69 kV transmission lines, and 3,116 circuit-miles of underground and overhead distribution lines. Citizens also owns 43 substations having a total installed transformer capacity of 966,000 kVA.

Citizens currently owns and operates the transmission facilities within the State of Arizona that cross the international border between Arizona and Sonora, Mexico. Citizens is not a party to a partnership agreement with an entity with relation to the transmission facilities.

Citizens seeks to transfer to NewCo its authorizations from DOE to export electric energy from the United States to Mexico, as described in section VI below.

B. UniSource Energy Company.

UniSource Energy, an Arizona corporation, is an exempt holding company pursuant to Section 3(a)(1) of the *Public Utility Holding Company Act of 1935*, as amended (“PUHCA”), 15 U.S.C. §79C(a)(1) (1994).³ UniSource Energy owns 99.9% of the issued and outstanding common stock of Tucson Electric Company (“Tucson Electric”),⁴ and all of the issued and outstanding common stock of two direct non-utility subsidiaries, Millennium Energy Holdings, Inc. (“Millennium”)⁵ and UniSource Energy Development Company (“UED”).⁶ UniSource Energy itself does not engage in any business activities or have any material assets, other than the stock of its subsidiaries.

³ See *Tucson Elec. Power Co.*, 80 FERC ¶ 62,275 (1997) (order authorizing the formation of holding company as consistent with the public interest under FPA § 203).

⁴ Tucson Electric is an Arizona public service corporation with its principal place of business at One South Church Avenue, Tucson, Arizona 85701. Tucson Electric is a vertically-integrated utility that provides regulated electric service to over 350,000 retail customers in its retail service territory. This service territory consists of a 1,155 square mile area of southeastern Arizona with a population of approximately 871,000. This area includes the City of Tucson and adjoining areas in Pima County; Tucson Electric also supplies the power requirements of a military base located in the adjoining Cochise County. Tucson Electric holds a franchise to provide electric distribution service to customers in the City of Tucson.

⁵ Millennium, which serves as the holding company for most of UniSource Energy’s non-utility operations, invests in various unregulated ventures related primarily to the energy business, including investments in a developer of thin-film batteries, a developer of small-scale commercial satellites, and a developer and manufacturer of thin-film photovoltaic cells. Neither Millennium, nor any of its subsidiaries, own or control facilities, or provide services, subject to the Commission’s jurisdiction.

⁶ UED engages in developing generating resources and other project development activities. UED was formed to facilitate the expansion of the Springerville generating station through construction of Springerville Unit Nos. 3 and 4. These units are not expected to be in service prior to 2006. UED does not engage in any other activities, and does not own or control facilities, or provide services, subject to the Commission’s jurisdiction.

II. COMMUNICATIONS.

Communications regarding this Application should be addressed to the following persons:

Citizens Communications Company

L. Russell Mitten, Esq.
Vice President, General Counsel &
Corporate Secretary
Citizens Communications Company
3 High Ridge Park
Stamford, CT 06905
(203) 614-5047
rmitten@cczn.com

UniSource Energy/NewCo

Vincent Nitido, Jr., Esq.
Vice President, General Counsel
UniSource Energy Corporation
One South Church Ave., Suite 100
Tucson, AZ 85701
(520) 884-3670
vnitido@tucsonelectric.com

A copy of all such communication should be sent to:

Bonnie A. Suchman, Esq.
Amie V. Colby, Esq.
Troutman Sanders LLP
401 9th Street, NW, Suite 1000
Washington, D.C. 20004
(202) 274-2906
bonnie.suchman@troutmansanders.com
amie.colby@troutmansanders.com

III. JURISDICTION.

Under Section 202(e) of the FPA, 16 U.S.C. § 824a(e), and DOE's regulations, 10 C.F.R. § 205.300 *et seq.*, any person seeking to transmit electric energy from the United States to a foreign country must first secure an order from DOE authorizing the export. No other known federal, state or local government has jurisdiction over the actions to be taken under the authority set out in this application.

IV. BACKGROUND AND STATEMENT OF REASONS FOR TRANSACTION.

Citizens and UniSource Energy entered into an asset purchase agreement, dated October 29, 2002, whereby Citizens has agreed to sell, and UniSource Energy has agreed to purchase, all of the assets (subject to certain stated exceptions) used by Citizens in connection with or

otherwise necessary for the conduct of Citizens' electric utility business in Arizona. UniSource Energy will form NewCo as its subsidiary to hold and operate such electric assets that it acquires from Citizens.

Mechanically, the asset purchase agreements call for UniSource Energy or the "UniSource Designee" – which will be NewCo – to purchase the assets. While the expectation is that NewCo will be the entity that will purchase Citizens' respective assets, alternatively, it is possible that UniSource Energy would purchase Citizens' assets and then transfer them to NewCo.

On February 7, 2003, Citizens and UniSource Energy filed with FERC a Joint Application for Approval of the Disposition of Jurisdictional Facilities under Section 203 of the FPA, seeking approval for the sale of Citizens' electric utility business to NewCo in Docket No. EC03-54-000 which is currently pending before FERC.

Upon consummation of the transaction, NewCo will acquire 100 percent ownership interest in the Citizens' Arizona electric assets. As a part of this transaction, NewCo will acquire 100 percent ownership interest in the transmission facilities located within the State of Arizona and that cross the United States-Mexico international border.

In the event of a voluntary transfer of facilities, 10 C.F.R. § 205.305(b) requires that a joint application be filed with DOE, together with a statement of reasons for the transfer. As explained above, the voluntary transfer will occur as a result of the sale of Citizens' relevant assets to NewCo. Accordingly, to allow for the transfer of such assets to NewCo, Citizens and UniSource Energy hereby request the rescission of Citizens' export authorizations and simultaneous reissuance of export authorizations to NewCo to become effective upon the financial closing of the transfer of Citizens' Arizona electrical system to NewCo. In the

alternative, if UniSource Energy purchases Citizens' relevant assets and then transfers the assets to NewCo, the Applicants request that the Department rescind the export authorizations, coincidentally issue export authorizations to UniSource Energy, and subsequently reissue to NewCo the export authorizations to ensure that the export authorizations remain in effect during the voluntary transfer of these facilities.

V. DESCRIPTION OF TRANSMISSION FACILITIES.

Citizens and UniSource Energy are concurrently filing with DOE a joint application to rescind Presidential Permits 16 and 40 issued to Citizens and to reissue Presidential Permits to NewCo ("Permit Application"). As set forth in the Permit Application, the Federal Power Commission ("FPC") issued Presidential Permit 16 ("PP-16") for an electric transmission facility crossing the international border between the United States and Mexico on August 8, 1952, and an Amendatory Permit on September 16, 1955. FPC Docket No. E-6432. Specifically, the facilities covered initially by PP-16 consist of:

1. A three-phase transmission line operating nominally at 2.3 kV, 60 cycles, located at the international boundary between the State of Arizona and the State of Sonora, Mexico, at Nogales, Arizona; and
2. A three-phase transmission line operating nominally at 13 kV, 60 cycle, located at the international boundary between the State of Arizona and the State of Sonora, Mexico, 1700' east of the 2.3 kV circuit crossing the international boundary at the intersection of Sondita Avenue and the international boundary in Nogales, Arizona.

However, and as explained in the Permit Application, in the mid-1970s, Citizens standardized the voltages on its system and eliminated the 2.3 kV voltage level from its system, including the 2.3 kV line referenced in PP-16. In addition, the 13 kV line is currently maintained only for contingencies and does not serve any load. The line is operated with the switch between the U.S. and Mexico normally open, but could be closed to supply electricity on an as available basis.

The line is maintained to provide backup to load on either side of the border should a contingency occur in either the U.S. or Mexico system. The line has a capacity of 20 MW.

The FPC issued Presidential Permit 40 ("PP-40") to Citizens on December 29, 1967. FPC Docket No. E-7371. The facilities covered by PP-40 serve isolated load in Mexico that have no other avenue of service. Electricity is provided over this line on an as available basis. Specifically, the facilities consist of:

A single circuit, three phase, 60 cycle, 13.2 kV electrical transmission line crossing the International Boundary 1,540 feet east of Boundary Monument No. 112, Section 21, Township 24 South, Range 17 East in Lochiel, Arizona. The line has a capacity of 4 MW.

VI. TECHNICAL DISCUSSION OF PROPOSAL.

Citizens currently has authorization to transmit electric power to Mexico and requests that the Commission rescind its authorization and simultaneously reissue authorization to NewCo. For the facilities covered by PP-16, the FPC authorized Citizens to transmit electric energy from the United States to Mexico beginning October 6, 1955. FPC Docket No. 6431. Under a supplemental order issued by the FPC on February 2, 1970, Citizens has authority to transmit electric energy in an amount not to exceed 60,000,000 kWh per year at a maximum transmission rate of 12,000 kW. For the facilities covered by PP-40, the FPC authorized Citizens to transmit electric energy from the United States to Mexico in an amount not to exceed 5,000,000 kWh per year at a transmission rate not to exceed 600 kW on December 29, 1967. FPC Docket No. E-7370.

As discussed above, pursuant to an asset purchase agreement, Citizens plans to sell to NewCo its electric utility business in Arizona. Thus, NewCo seeks to be reissued the authorizations granted to Citizens to transmit electric power to Mexico over the existing

transmission facilities specified in PP-16 and PP-40 and described above in section V. In addition, NewCo seeks to have the authorizations issued without any energy limits.

NewCo will conduct all power exports in accordance with all applicable reliability criteria, standards and guidelines of the North American Electric Reliability Council and the Western Electricity Coordinating Council in effect at the time of export. In addition, because NewCo will only export energy on an as available basis, NewCo's export of power will not impair the sufficiency of electric power supply in the U.S., nor will it impede or tend to impede the coordinated use of transmission facilities within the meaning of Section 202(e) of the FPA.

A signed opinion of counsel, stating that the ownership, operation, and maintenance of the existing transmission facilities will be within the corporate powers of NewCo and that NewCo and Citizens has complied with or will comply with all pertinent federal and state laws is attached hereto as Exhibit B.

VII. SERVICE AND FEE.

In accordance with the requirements of 10 C.F.R. § 205.309, copies of this application will be provided to the following:

Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

A check in the amount of \$500.00 made payable to the Treasurer of the United States is enclosed in payment of the fee specified in 10 C.F.R. § 205.309.

VIII. VERIFICATION.

Verifications executed by Applicants' authorized representatives in accordance with 10 C.F.R. § 205.302(h) are enclosed with this Application.

IX. EXHIBITS.

In accordance with the requirements of 10 C.F.R. § 205.303, the following exhibits are attached hereto:

- Exhibit A Transmission Agreements - *not applicable*
- Exhibit B Opinion of Counsel
- Exhibit C Maps of Applicants' Overall Electric Systems and the Facilities to be Used for
the Generation and Transmission of the Electric Energy to be Exported
– *not applicable*
- Exhibit D Power of Attorney - *not applicable*
- Exhibit E Statement of Any Corporate Relationship or Existing Contract- *not applicable*
- Exhibit F Operating Procedures- *not applicable*

X. CONCLUSION.

WHEREFORE, Citizens and UniSource Energy respectfully request that this Application for the rescission and simultaneous reissuance of export authorizations without energy limits be considered and approved to become effective upon the financial closing of the transfer of ownership of Citizens' Arizona electrical system to NewCo.

Respectfully Submitted,



Bonnie A. Suchman, Esq.
Amie V. Colby, Esq.
Troutman Sanders LLP
401 9th Street, N.W., Suite 1000
Washington, D.C. 20004
(202) 274-2950
(202)274-2994 (facsimile)

*Attorneys for
UniSource Energy Corporation and NewCo*



L. Russell Mitten, Esq.
Deborah Scott, Esq.
Citizens Communications Company
3 High Ridge Park
Stamford, CT 06905

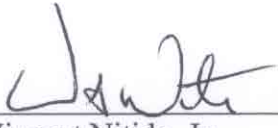
*Attorneys for
Citizens Communications Company*

Dated: April 18, 2003

VERIFICATIONS

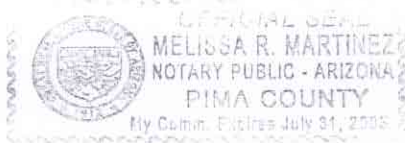
VERIFICATION

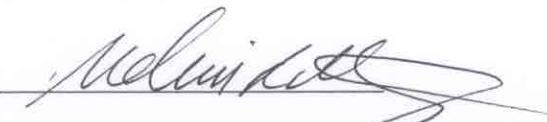
I, Vincent Nitido, Jr., Vice President and General Counsel of UniSource Energy Corporation, having knowledge of the matters set forth in the above Joint Application of Citizens Communications Company and UniSource Energy Corporation to Rescind Authorities to Transmit Electric Energy To Mexico and Simultaneously Reissue Export Authorities to a New Entity, hereby verify that the contents thereof are true and correct to the best of my knowledge and belief.



Vincent Nitido, Jr.

SUBSCRIBED AND SWORN before me, a notary public this ____ day of April, 2003.





My Commission Expires: 7/31/03

VERIFICATION

I, L. Russell Mitten, Vice President, General Counsel and Corporate Secretary of Citizens Communications Company, having knowledge of the matters set forth in the above Joint Application of Citizens Communications Company and UniSource Energy Corporation to Rescind Authorities to Transmit Electric Energy To Mexico and Simultaneously Reissue Export Authorities to a New Entity, hereby verify that the contents thereof are true and correct to the best of my knowledge and belief.



L. Russell Mitten

SUBSCRIBED AND SWORN before me, a notary public this 17th day of April, 2003.



Lisa M. Lombardo

My Commission Expires: 10/31/06

EXHIBIT A

TRANSMISSION AGREEMENTS

Not Applicable

EXHIBIT B

OPINION OF COUNSEL



UniSource Energy Tower
Suite 1820
One South Church
Tucson, AZ 85701

Vincent Nitido, Jr.
Vice President, General Counsel and
Chief Administrative Officer

520/884-3670
FAX 520/884-3612

April 14, 2003

U.S. Department of Energy
Office of Fossil Energy
1000 Independence Ave., SW
Washington, D.C. 20585

Dear Ladies & Gentlemen:


This opinion is rendered in connection with the joint application ("Application") of Citizens Communication Company ("Citizens") and UniSource Energy Company ("UniSource Energy") to rescind Presidential Permits authorizing Citizens to construct, operate and maintain an electric power transmission facilities crossing the international border between the United States and Mexico, and simultaneously issue such permits to NewCo, a subsidiary of UniSource Energy, to own, operate and maintain the completed electric power transmission facilities, pursuant to Executive Order ("EO") No. 10485, as amended by EO 12038, and 10 C.F.R. § 205.320 *et seq.* (2002).

Based on my understanding of Citizens' and UniSource Energy's proposal and my examination of such documents, records and matters of laws as I have considered to be relevant in the premises, it is my opinion that:

3. The operation and maintenance of the facilities, as contemplated by the Application, are within the corporate power of NewCo.
4. Based on information provided by representatives of UniSource Energy, NewCo will comply with all pertinent Federal and State laws.

I am opining herein only as to federal laws of the United States, the internal laws and the general corporate laws of the State of Arizona, and I express no opinion as the laws of any other jurisdiction or as to any matters of municipal law or the laws, rules or regulations of any local agency in any state. I am not assuming any obligation to review or update this opinion should the law or existing facts or circumstances change. This opinion is provided by me as counsel for UniSource Energy and NewCo solely to you for your exclusive use and is not to be made available to or relied upon by any other person or entity without my prior written consent.

Respectfully Submitted,


Vincent Nitido, Jr.

Attorney for UniSource Energy Company and
NewCo

April 17, 2003

U.S. Department of Energy
Office of Fossil Energy
1000 Independence Ave., SW
Washington, D.C. 20585

Dear Ladies & Gentlemen:

This opinion is rendered in connection with the joint application ("Application") of Citizens Communication Company ("Citizens") and UniSource Energy Company ("UniSource Energy") to rescind Presidential Permits authorizing Citizens to construct, operate and maintain an electric power transmission facilities crossing the international border between the United States and Mexico, and simultaneously issue such permits to NewCo, a subsidiary of UniSource Energy, to own, operate and maintain the completed electric power transmission facilities, pursuant to Executive Order ("EO") No. 10485, as amended by EO 12038, and 10 C.F.R. § 205.320 *et seq.* (2002).

Based on my understanding of Citizens' and UniSource Energy's proposal and my examination of such documents, records and matters of laws as I have considered to be relevant in the premises, it is my opinion that:

1. Based on information provided by representatives of Citizens, Citizens will comply with all pertinent Federal and State laws.

I am opining herein only as to federal laws of the United States, the internal laws and the general corporate laws of the State of Arizona, and I express no opinion as the laws of any other jurisdiction or as to any matters of municipal law or the laws, rules or regulations of any local agency in any state. I am not assuming any obligation to review or update this opinion should the law or existing facts or circumstances change. This opinion is provided by me as counsel for Citizens and solely to you for your exclusive use and is not to be made available to or relied upon by any other person or entity without my prior written consent.

Respectfully Submitted,



L. Russell Mitten

Attorney for Citizens Communication Company

EXHIBIT C

POWER OF ATTORNEY

Not Applicable

EXHIBIT E

**STATEMENTS OF ANY CORPORATE RELATIONSHIP
OR EXISTING CONTRACT**

Not Applicable

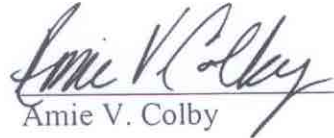
EXHIBIT F

OPERATING PROCEDURES

Not Applicable

CERTIFICATE OF SERVICE

I hereby certify that on April 18, 2003, I served the foregoing document upon the appropriate state and federal agencies regarding this proceeding.


Amie V. Colby